

STATEMENT BY HENRY A. WAXMAN  
BEFORE THE HOUSE COMMITTEE ON THE BUDGET  
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Mr. Chairman and members of the Committee, I am pleased to have the opportunity to appear here today.

I am here for one simple reason: to urge you to consider the implications for Medicare, Medicaid and our health care system of the budget reduction targets you put in the Budget Resolution, and to limit the reductions you ask for to levels that can reasonably be achieved without savaging these programs and adding millions of more Americans to the rolls of the uninsured.

You cannot take hundreds of billions of dollars from these programs without damaging them perhaps beyond repair. And you cannot slash the Federal commitment to health care without having severe adverse effects on the costs of private insurance for the rest of us, and on the health care institutions which we rely on to deliver quality care to the American public.

Let me address both programs in turn.

MEDICARE

We have spent more than a decade enacting cuts in the rate of growth in the Medicare program. Like all health care programs, private as well as public, we have faced a serious problem because health care costs have grown more rapidly than the economy in general. That fact alone is at the core of our problem of health care entitlement programs contributing disproportionately to the deficit.

But we have taken action, and the reforms we enacted have been major. We developed a whole new way to pay for hospital care, the Prospective Payment System. We reformed how we paid doctors, establishing an annual limit on total expenditures so that we can get a handle on increased volume of services. I think it is safe to say that these proposals have not only been effective but have served as models for many private payors.

In fact, common wisdom to the contrary, on a per enrollee basis, Medicare expenditure growth for both hospital and physician care was considerably less than the expenditure growth by private insurance during the decade of 1984-1993.

This reflects that we have been aggressive in addressing costs. It also means that the private sector has had a higher base to reduce from over the last few years when their performance has appeared somewhat better in relation to the public sector.

The consequence of all of this is that even avid budget cutters recognize, I believe, that we are close to the end of the line in making further dramatic cuts in provider payments. We already pay physicians at only about 65% of private rates, for example. Further reductions are going to result in discrimination against Medicare patients, and have a clear negative effect on access.

Further, particularly with the growth of negotiated discounts and managed care arrangements in the private sector, our health care institutions have less ability every day to shift costs to make up for the shortfall of reimbursements from our public programs.

What concerns me is that in the face of these facts, I now hear many of my colleagues say that we can find a new magic bullet of cost reduction in Medicare by bringing it into the decade of the 90's and moving in a big way into managed care.

It is my belief that expectations of cost savings from moving down this road are wildly overblown. And I say this as the former Chairman of the Subcommittee that put the managed care option into Medicare, and as someone who recognizes the advantages of a well run managed care plan.

But you cannot have quality managed care if you don't pay for it. And that is why we have to keep our savings expectations realistic.

I want my colleagues to contemplate the fact that only 5% of Medicare beneficiaries account for 50% of the expenditures; 25% of beneficiaries account for 91% of Medicare outlays! There shouldn't be any surprise here--it's the sick people that cost the money. Any managed care plan is going to face significant problems in reducing radically the level of expenditure that is going to be required to take care of very old and very sick people.

Additionally, you must recognize that private managed care plans are realizing significant savings from negotiating discounted rates (a discount Medicare has already realized).

When you consider the implications of all this, you have to lower your expectations of what can realistically be saved in Medicare even if we do make much greater use of managed care.

Finally, we have to be realistic about how rapidly people will move in to managed care, unless you are willing to force Medicare beneficiaries into managed care, or place such an extremely heavy financial penalty on them if they don't go into managed care that it amounts to the same thing. Forcing them into managed care is in my view very bad policy and will result in a great deal of unhappiness among the Medicare population.

So don't kid yourselves--you cannot require massive savings in Medicare without cutting benefits, cutting coverage, shifting large costs onto the beneficiaries, affecting quality--or all of the above. This is a recipe for making millions of our constituents very unhappy. And it is a recipe for causing major structural damage to the health care system.

## MEDICAID

The problems are different but in some ways even more severe in looking to the Medicaid program for massive budget savings.

Again, I recognize that it is popular to say we can simply block grant the program, do away with the entitlement of poor people for services, do away with Federal requirements, and somehow the States will magically find a way to save lots of money.

That is flat out wrong. Or it is wrong unless you are willing to say we will accept a result where we add millions more Americans to the rolls of the uninsured.

If you limit growth in Medicaid to a 4% or 5% growth cap as seems to be under discussion at the moment, the result will be a cut of between 23% and 27% of projected program expenditures by the year 2000. Put this in the context of a program where reimbursements are already notoriously inadequate. Put this in the context of a program for the poor that already fails to cover over 40% of the people below poverty.

Again, I know the budget cutters' answer: managed care. Well let's concentrate on a few facts.

60% of Medicaid expenditures are for aged and disabled people. They are notably poor candidates for managed care programs; even in managed care arrangements, it is difficult to reduce costs in any significant way.

Another way to look at it is that some 37% of Medicaid expenditures are for nursing home services. Again, there is not much fruitful ground for managed care savings there. In fact the one promising area we've got, home and community based service alternatives, would probably be the first to go under budgetary pressures if Medicaid funds are substantially reduced.

Of the population of parents and children that are left, fully one third are already in managed care arrangements under the current Medicaid program. So you are down to a relatively modest part of the Medicaid program that even can be moved into managed care.

All of this led the Kaiser Commission to conclude recently that you probably cannot hope to reduce Medicaid expenditures

overall by more the 2% through use of managed care.

So do not assuage your consciences by saying we can make massive cuts in the Federal support for Medicaid and not shred the one health care safety net we have for poor people in this country.

If we proceed on this course, we will find the numbers of uninsured Americans growing far beyond the 42 million we have today. And make no mistake about it, many of the people who we add to the rolls of the uninsured will be children.

#### CONCLUSION

My point to you today is that there are no easy answers to the dilemma of the high cost of our health care programs. And there are many dangers to ill-conceived actions or unrealistic budget cuts.

I urge you all to think about the people who depend on Medicare and Medicaid. I urge you to consider carefully the ultimate affects of a budget resolution which demands massive and unrealistic savings.

I look forward to working with you on these challenges we face to both reduce the deficit and protect our health care programs upon which so many of our citizens depend.